

COMMISSION ON ORGANIZATION
OF THE
EXECUTIVE BRANCH OF THE GOVERNMENT

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Washington, D.C., April 17—Recommendations which, if carried out, are expected to save taxpayers billions of dollars and "to go a long way toward eliminating the annual deficit in the national budget" are in a report on Use and Disposal of Federal Surplus Property which the Commission on Organization of the Executive Branch of the Government will submit to the Congress tomorrow.

The 12-man bi-partisan Commission, of which former President Herbert Hoover is Chairman, points out that, "for the next several years, huge quantities of supplies approaching an annual rate of \$2,000,000,000, acquisition cost, will be purged from Government warehouses." Modern techniques of selling under the advice of merchandising experts are urged upon the Government as a means of recovering for the taxpayer more than the 5 to 7 per cent of acquisition cost which is returned, on the average, under present methods. Each additional 1 cent received on each dollar cost of property sold would yield an extra \$20 million yearly.

As a vital part of an effective disposal and inventory control program, the Commission recommends that the Federal catalog to identify property owned by the Government be completed as speedily as possible.

The Government has an "enormous pool of assets amounting to some \$155 billion" scattered throughout the world, from which surpluses come, creating a disposal problem both immense and complex. This figure does not include the value of land in the public domain, surplus farm commodities, or stockpiles of strategic materials.

The Commission explains that Government-owned property becomes "excess" after the agency in possession no longer needs it, and becomes "surplus" after its availability has been made known to other agencies and none of them desires it.

The Federal Government spends billions of dollars yearly for new supplies and at the same time retires old, worn-out or unneeded items from its supply channels. Between fiscal 1950 and fiscal 1954 the military agencies spent \$107,600,000,000 for supplies, equipment, capital goods, real property and construction. Estimated expenditures for fiscal 1955 in these fields will total \$23,900,000,000 for the Defense Department, and \$3,400,000,000 for all civilian agencies.

"Expenditures of such huge amounts," the Commission says, "produce corresponding quantities of excess and surplus property. In fiscal 1954 the Navy alone increased its inventory of ready-for-use supplies in the amount of \$913,400,000, while Navy disposals in the same period exceeded \$576,600,000 at acquisition cost. No comparable figures were available from the Air Force or Army."

The Commission discovered that, although the Congress more than five years ago "directed the military services to maintain inventories in monetary as well as quantitative terms," this has not been done and "complete and reliable inventory data still are unavailable."

"The Government has mountainous accumulations of property which it would not have bought if it had a good inventory system," according to the Commission. "It is estimated that, with proper inventory control and more realistic stock levels, from \$10 billion to \$25 billion of supplies now in Government warehouses could be eliminated.

"Moreover, a large volume of stock on hand is obsolete or is rapidly becoming unsuited to military needs. Deleting it from the supply system will provide immediate savings through depot and warehouse clearance. By this means overhead charges can be substantially reduced."

Rapid technological advances increase the problem.

"Many items," the Commission says, "are either sold as scrap, destroyed or abandoned. Other often valuable items are sold in mixed lots with little regard for their possible commercial use."

Besides the increased cash returns which "could be derived merely from improvements in selling surplus stocks," the Commission believes that "vastly larger savings would flow from more efficient property management throughout the Government, and particularly within the military establishment, which accounts for more than 99 per cent of all goods bought and stocked by the Government."

A task force headed by General Robert E. Wood, former Chairman of the Board of Sears, Roebuck & Co., made extensive studies for the Commission of surplus property problems. Random selection by this group of supply items in common use "and easily obtainable from manufacturers" showed, the Commission says, that military depots stock many such items sufficient for a 20 or 30 and even, in one case, a 128 years' supply.

"For example, 10 items were examined at the Raritan Army Stock Control Point in New Jersey. These were standard items with multiple military uses and easy to manufacture. The total inventory of the 10 items was about \$1,000,000, representing an average 32.6 years' supply, according to the issuing experience of this control point. More than \$430,000 of inventory of these ten items was determined to be excess.

"At the Warner Robins Air Materiel Area depot in Georgia, a sampling was made of the inventory status of 25 standard items. The task force found that stock on hand as against the monthly issue rate represented from 0 to 79 years' supply. Authorized stock retention levels ranged from 6 months' to more than 9 years' supply. Stock on hand excess to the authorized levels for seven items alone totaled \$1,243,492.

"A spot check of the validity of inventory control records at the same depot was made for 25 items selected at random from six property classes. Stock on hand for six items equaled the amounts listed in the inventory records for those items. Eight items were found to exceed inventory records in quantities ranging from 1 to 367 per cent. On the other hand warehouse stocks for 11 items were short of inventory records in quantities ranging from almost 2 to 100 per cent, or no stocks at all." The task force found similar conditions in the Navy supply system.

"Even where items stocked or purchased reasonably reflect actual need," the Commission adds, "the authorized stock levels may be highly inflated. Our task force found, for example, that the Army Signal

Corps had an authorized stock level of 1,426,000 dry-cell flashlight batteries--an $8\frac{1}{2}$ years' supply of this short shelf-life item. Although stocks on hand of batteries were well below the authorized level, this unrealistic figure remains an open procurement goal."

Because it buys more supplies than any other large group of buyers in the world, the Government is the greatest potential customer for its own excess supplies, the Commission says, adding: "Yet, this buying is so distributed and the coordination is so poor that one Government agency often is disposing of as surplus the very items being bought from outside sources by another agency."

The Commission found that only limited transfers of excess property take place among major organizations of any one department, such as the Defense Department, or among departments and agencies generally.

"For example," the Commission says, "total excesses declared by the military departments during the period from fiscal year 1951 through the first nine months of 1954 amounted to almost \$3 billion, yet only \$105 million of property was redistributed for utilization by agencies within the Defense Department. Even where Government agencies strive to keep each other advised of excesses, it is often impossible to tell from the varying descriptions and stock numbers whether the excess item of one agency is the same as that being sought by another agency."

This situation would be eased by completion of the Federal catalog project.

Both the Commission and the task force found a reluctance on the part of Government agencies to use excess property of other agencies

so long as they had funds to buy new supplies. They also found a reluctance to accept excess where there was a slight variation of specification from materials to be bought.

The Wood task force reported these examples to the Commission:

During 1949 the Navy decided to reclaim pig lead from scrap materials on hand. The lead program continued for about four years. During that time the Navy built up a substantial inventory. While the Navy has used some of it, the amount on hand at the time of the Task Force's study was about 36 million pounds with a market value of about \$5,300,000.

"The Navy retained this material, obviously excess to its needs, without offering it for screening for possible use by other agencies, all during the Korean War, including the period of maximum shortage of lead in the national economy," the Commission says on the basis of its Task Force's report. "Had it been diverted to the economy, it would have come under allocation by the National Production Authority, and the Navy would have received its fair share.

"Also, at this time, the General Services Administration was making extensive efforts to secure lead for the national stockpile. It indicated its willingness to take over the Navy's lead without reimbursement. The Navy, however, saw fit to refuse the transfer on this basis.

"It is difficult to understand why, if the General Services Administration was purchasing lead in the open market for the stockpile during the Korean emergency, it was not, as an alternative, willing to reimburse the Navy for its lead from stockpile funds.

"Army ordnance was also aware of the Navy's supply of pig lead. Yet, during the first six months of fiscal 1954, Army ordnance purchased in the open market 10,500,000 pounds of lead wire and slugs and 800,000 pounds of shot at a cost of \$1,500,000. Army ordnance rejected the Navy lead because it was in pig form whereas ordnance required heavy lead wire strengthened by antimony. The Task Force noted that antimony easily can be added to lead, and pig lead is easily convertible to wire form."

The Task Force also reported that several million dollars worth of stock and equipment bought originally for U. S. Army operations in Iran and acquired by the Alaska Railroad from the War Assets Administration after World War II filled 17 warehouses as well as large open areas in Alaska, where it remained as dead storage for seven or eight years without a physical inventory until the General Services Administration got the task of preparing one.

The Commission notes that this shows "how material transferred by the agencies can be held unused for years at a substantial cost to the Government for warehousing, distribution, inventory and inspection only to be designated surplus again with a new chain of resulting costs."

In its discussion of disposal methods, the Commission draws attention to a recent incident noted by its Task Force. An auction of 70 to 80 tons of mixed-metal lots was being conducted at Shelby Air Force base. The bidders were eagerly competing for the surplus. Government officials halted the bidding to make a new and more careful inspection of the merchandise. Among the lots offered for sale as brass were detected substantial quantities of sterling silver medals, insignia

and other military devices. On a scrap basis the silver would have brought 60 to 75 cents an ounce, or might have been sold to a smelter at 85 cents an ounce.

"Because properties become surplus wherever they happen to be located in the supply system, they are frequently at installations remote from normal commercial markets," the Commission says. "Although potential purchasers will travel to out of the way places to buy if the bargain is attractive enough, the Federal Government suffers in its net return because this primitive method of sale on an 'as is where is' basis takes on the aspect of a distress sale."

In recommending improved disposal methods, the Commission points to military estimates that during fiscal 1955 some \$4,200,000,000 of stock, in terms of cost, will be reported as excess to requirements and that a substantial amount will become disposable surplus.

World War II procurement and supply experience "revealed in stark fashion the inadequacy of then existing stock catalogs," the Commission says. Thereafter the problem of developing a satisfactory catalog received attention from various agencies, the responsibility finally having been placed by Congress with the Secretary of Defense.

"The magnitude of the effort to identify and develop uniform descriptions for items in Government inventories is indicated by the estimate that over 4,000,000 items are listed currently in agency records," the Commission says, expressing the hope that this number can be reduced to 2,000,000.

Defense Department officials have informed the House Committee on Government Operations that the cataloging of items in the Government

supply system will be completed by September, 1956, and it is expected that the military services will replace their own separate catalogs with the Federal catalog by the end of 1958.

The Task Force told the Commission that "utilization of excess is not presently being accomplished at anywhere near its maximum potential" and that there is "little doubt in our minds that the Federal Catalog will provide the means by which a vast improvement in utilization and inventory flexibility can be realized."

In examining the problem of disposal of overseas excess property, the Commission found a "lack of systematic and reliable data on the value and quantities." It also found that "the three military departments with their separate supply systems (and separate supply systems within systems) are not organized for the efficient interchange of excess stocks"; that a "military activity finding itself in need of new supplies prefers to make requisitions through its own pipelines back to the United States," and that "transfers among military activities overseas are made on an emergency and haphazard basis."

"Nor," the Commission says, "is there any efficient mechanism for channeling excess supplies into foreign aid programs. The Foreign Operations Administration has no authority to earmark such excesses for civilian foreign aid, and the Department of Defense does not utilize such material in military aid except through the domestic screening procedure."

- "Each executive agency having overseas excess property is responsible for its disposal, subject to the general requirement of conformance with

the foreign policy of the United States," the Commission points out. "Policy guidance in foreign disposals is provided by the State Department, which focuses on preventing the holding agencies from any disposal that may be detrimental to our security or to our international policy."

"However, the State Department is not in a position to control or to enforce compliance with its policy decisions." The Commission brings out that, "apart from the general policy guidance from the State Department, no administrative agency is responsible for directing all overseas excess property disposal to the maximum benefit of the American people."

"The Commission believes," it says, "that every effort should be made to utilize Government excess supplies in foreign aid programs, in order to minimize procurement of new material for such programs. This applies to domestic as well as overseas excess. In that way the taxpayers, already having paid once for the excess property, will not be called upon for such heavy additional outlays in foreign aid."

The Commission notes that much excess supplies and land and buildings are turned over to States, for health and educational purposes. Before surplus personal property is sold to interested buyers, such institutions have a limited time to claim it. Property so transferred is called "donable," since the Federal Government makes no charge for it except the cost of care and handling. Since 1946 a total of \$783,343,000 in personal property and \$699,713,000 in real property, a grand total of \$1,483,056,226 representing cost, has been donated to educational and public health institutions.

It was the judgment of the Task Force that "in view of the serious shortage of school and civilian hospital facilities, as well as equipment for them, it is a prudent investment of public funds to transfer to the States such excess equipment and supplies as can relieve this shortage." "This is particularly true," according to the Task Force, "of property which might otherwise be sold as surplus to private individuals or concerns who would in turn resell it to tax-supported institutions at prices greater than they paid the Federal Government."

The Commission approves of this donation program and directs its recommendations merely to improving its administration.

Among the 23 recommendations it makes for dealing with the problems of surplus property are the following:

The Secretary of Defense is asked to take the following steps:

Direct the downward revision of authorized stock levels to more realistic limits, particularly for common use military and other items which are readily available from current production or which rapidly become obsolescent.

Require that stocks on hand do not exceed authorized levels.

Require the rapid elimination of present excess stock, or that becoming excess as a result of the suggestions above, by redistribution to the maximum extent possible.

Prohibit further expenditure of funds for the purchase of items in excess supply until such stocks have been brought down to the newly validated stock levels.

On the Federal Catalog, the Commission also recommends that a "master plan or program be formulated jointly by the Secretary of Defense and the Administrator of General Services for integration of the Federal Catalog into all aspects of supply management throughout the Department of Defense and the civilian departments and agencies of the Government.

The following additional recommendations are offered by the Commission with the "understanding that the findings of its Task Force on Procurement and of other task forces studying supply management in the Department of Defense may suggest further or alternative" proposals:

That the Defense Department "make it mandatory for each supply and inventory control point to check its counterpart in the other military services prior to new procurement, particularly of common-use items, where the amount of the purchase exceeds a fixed sum (varying for different classes of items), to ascertain whether excess or material in long supply is available for transfer." This procedure would be made effective immediately on items readily identifiable by common terminology and would be coordinated with the Federal catalog program on hard-to-identify items.

That the President, when progress in the catalog program permits, direct a Government-wide review of supply programs to develop a system requiring each Government agency to check its proposed procurement against excess supplies in all other agencies.

That the President direct the Bureau of the Budget, in cooperation with the General Services Administration and the Department of Defense, to make stock fund, pricing and reimbursement studies aimed at developing procedures or legislation to facilitate transfers and promote greater utilization of excess property within the Government.

Serving with General Wood on the Task Force on Federal Surplus Property were Harry Erlicher, of Schenectady, N.Y., special assistant to the Under Secretary of the Army and former general purchasing agent and vice president of the General Electric Company; Leroy D. Greene, of Bethlehem, Pa., consultant to the Office of Defense Mobilization, and formerly with the Bethlehem Steel Company in charge of buying and selling of scrap and demolition activities; Thomas D. Jolly, of Pittsburgh, vice president of the Aluminum Company of America; Carl Kresl, of Hinsdale, Ill., former merchandise supervisor of Sears, Roebuck & Co.; James D. Mooney, of New York, former president and chairman of the board of Willys Overland Motors, Inc.

Also George A. Renard, of New York, executive secretary-treasurer of the National Association of Purchasing Agents, and member of the U.S. Navy Advisory Committee on Procurement and of U.S. Munitions Advisory Board on Stockpiling Materials; Edward Starr, Jr., of Philadelphia, partner of Drexel & Co., bankers, and member of the committee for disposal of overseas surplus in the Pacific area after World War II; and Walter W. Tangeman, of Cincinnati, executive vice president of the

Cincinnati Milling Machine Company and president of the University of Cincinnati Research Foundation. The staff director was Gerald S. Wise, of Baltimore, chairman of the advisory committee to the Maryland State Commission for Administrative Reorganization of the State Government.

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